TERAGO INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of TeraGo Inc. All references in this MD&A to "TeraGo", the "Company", "we", "us", "our" and "our company" refer to TeraGo Inc. and its subsidiaries, unless the context requires otherwise. This MD&A is dated November 5, 2014 and should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2014 and the notes thereto, our audited consolidated financial statements for the fiscal year ended December 31, 2013, including the notes thereto and our annual MD&A for the year ended December 31, 2013. Additional information relating to TeraGo, including our most recently filed Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com and our website at www.terago.ca. For greater certainty, the information contained on our website is not incorporated by reference or otherwise into this MD&A. All dollar amounts included in this MD&A are in Canadian dollars unless otherwise indicated.

Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. For a description of material factors that could cause our actual results to differ materially, see the "Forward-Looking Statements" section of this MD&A and the "Risk Factors" section in our annual MD&A for the year ended December 31, 2013 which is available on SEDAR at www.sedar.com. This MD&A also contains certain industry-related non-GAAP and additional GAAP measures that management uses to evaluate performance of the Company. These non-GAAP and additional GAAP measures are not standardized and the Company's calculation may differ from other issuers. See "Definitions – IFRS, Additional GAAP and Non-GAAP measures".

FORWARD-LOOKING STATEMENTS

This MD&A includes certain forward-looking statements that are made as of the date hereof only and based upon current expectations, which involve risks and uncertainties associated with our business and the economic environment in which the business operates. All such statements are made pursuant to the 'safe harbour' provisions of, and are intended to be forward-looking statements under, applicable Canadian securities laws. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. For example, the words *anticipate, believe, plan, estimate, expect, intend, should, may, could, objective* and similar expressions are intended to identify forward-looking statements. This MD&A includes, but is not limited to, forward looking statements regarding TeraGo's growth strategy, cloud services, retention campaign and initiatives, additional capital expenditures and investments in data centers and other IT services. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed with the forward-looking statements. When relying on forward-looking statements to make decisions with respect to the Company, you should carefully consider the risks, uncertainties and assumptions, including the risk that TeraGo's growth strategy will not generate the result intended by management, cross-selling of TeraGo's cloud services may not succeed, retention efforts decreasing profit margins and opportunities for expansion and acquisition not being available or at unfavourable terms, those risks set forth in the "Risk Factors" section in our annual MD&A for the year ended December 31, 2013 on www.sedar.com and other uncertainties and potential events. In particular, if any of the risks materialize, the expectations, and the predictions based on them, of the Company may need to be re-evaluated. Consequently, all of the forward-looking statements in this MD&A are expressly qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences for the Company.

Except as may be required by applicable Canadian securities laws, we do not intend, and disclaim any obligation, to update or revise any forward-looking statements whether in words, oral or written as a result of new information, future events or otherwise.

OVERVIEW

Quarterly Financial Highlights & Developments

- Total revenue decreased 4.7% to $12.5 million for the three months ended September 30, 2014, compared to $13.2 million for the same period in 2013, due to a decrease in access revenue primarily due to a new wireless entrant's decommissioning of sites in Q2 and Q3 2014 and partially offset by an increase in data center revenue. Excluding revenues from the new wireless entrant, total revenue decreased 2.5% for the three months ended September 30, 2014 compared to the same period in 2013

- Adjusted EBITDA decreased 20.6% to $4.1 million for the three months ended September 30, 2014, compared to $5.1 million for the same period in 2013 primarily due to a decrease in access revenue partially offset by an increase in data center revenue and early termination fees. Adjusted EBITDA for the three months ended September 30, 2014 decreased 5.7% compared to $4.3 million Adjusted EBITDA for the three months ended June 30, 2014

- Net loss was $0.2 million for the three months ended September 30, 2014 compared to net earnings of $1.6 million for the same period in 2013. Net loss was impacted by a decrease in revenue as described above, an increase in severance cost related to restructuring and higher stock based compensation provided to new management

- Average monthly customer churn rate was 0.87% for the three months ended September 30, 2014 compared to 1.00% in the prior quarter and 1.03% for the prior year – the decrease is primarily due to retention initiatives and improved customer service

- Net customer additions remained positive with 2 net customers for the three months ended September 30, 2014 compared to 7 net customers for the same period in 2013 and an overall customer loss in fiscal 2013.

- The Company's third data center (located in Vancouver, British Columbia) became operational on October 1, 2014

- TeraGo was presented with the inaugural Canadian Telecommunications Employer of Choice (EOC) Recognition Award for 2014, which identifies, recognizes and promotes the best employers in the Canadian telecommunications industry

- TeraGo's HR team has been named a finalist in two categories in the Canadian HR Awards for 2014: Best Change Management Strategy and Best Health and Wellness Strategy

TERAGO OVERVIEW

TeraGo provides communications, data center and cloud services through its national network and data centers.

Access Services	Data Center Services	Cloud Services
• High performance, scalable Internet access principally via wireless with fibre optic in selected strategic areas • Data connections and VLAN services • Redundant connectivity • Voice over IP services	• Colocation services in partial, full, or customized cabinets • Managed, Private Dedicated, and Co-location hosting services • Other value added services	• Infrastructure-as-a-Service (IaaS) utility computing on virtual and dedicated compute platforms • High performance protected data storage • Managed backup services • Data archiving and vaulting

Strategy
TeraGo leverages its strategic strengths as a facilities-based information technology ("IT") and data center services provider for small and medium-sized business ("SMB") customers in Canada, enabling their businesses to connect to the world and securing their critical information assets by providing superior customer service, performance and availability as key differentiators.

TeraGo employs a growth strategy that consists of the following key components:

- Increase customer penetration in our existing markets;
- Cross-sell and promote our enhanced service offerings that include value-added IT services to our current customer base;
- Expand our customer base by offering a comprehensive set of IT solutions;
- Expand and enhance our product and service offerings; and
- Pursue strategic initiatives including acquisitions and partnerships on an opportunistic basis.

TERAGO'S BUSINESS MODEL

TeraGo's subscription-based business model generates stable and predictable recurring revenue from Internet, data, voice services, data center services and cloud services.

Communications Services
TeraGo's communications services customers typically sign one, two or three-year contracts. In 2014, approximately 80% of our new customers signed contracts for three years or more. Services are billed monthly or quarterly over the term of the contract.

Data center services
Hosting and colocation revenue is derived from set-up fees for new installations and monthly recurring charges based on the number of cabinets and/or the quantity of cage space, power requirements, managed services provided and Internet/data bandwidth requirements.

Cloud services
TeraGo's focus is to provide these services to communications and data center services customers; however, it is expected that certain customers will purchase cloud-based services independent of TeraGo's other services. Cloud services revenue is expected to be derived from monthly recurring changes based on usage.

As at September 30, 2014, the Company offered its services in 46 geographic markets across Canada serving over 4,100 customers. Once a customer is obtained, we work to capitalize on opportunities to generate incremental recurring revenue from that customer by adding new customer locations and increasing service capacity supplied to existing locations, by increasing data center cabinet space and by providing additional services.

Access Services

TeraGo owns and operates a carrier-grade Multi-Protocol Label Switching ("MPLS") enabled wireline and fixed wireless, Internet Protocol ("IP") communications network in Canada, providing businesses with high performance, scalable, and secure access and data connectivity services.

TeraGo's carrier grade IP communication network serves an important and growing demand among Canadian businesses for network access diversity by offering wireless services that are redundant to their existing wireline broadband connections.

TeraGo's IP network that has been designed to eliminate single points of failure and the Company backs its services with customer service level commitments, including 99.9% service availability, industry leading mean time to repair, 24 x 7 telephone and e-mail access to technical support specialists.

TeraGo offers Canadian businesses high performance TeraGo Subscription Line (TSL), Ethernet and Dedicated Internet access with upload and download speeds from 1.5 megabytes per second ("Mbps") up to 1 gigabyte per second ("Gbps"). Unlike asymmetrical DSL services offered by many of our competitors, TeraGo provides services that are symmetrical, hence customers can have the same high speed broadband performance whether uploading or downloading. TeraGo enhances service performance by minimizing the number of networks between our customers and their audiences, using peering arrangements with multiple tier-one carriers to connect to the Internet.

Data Services
TeraGo offers data connectivity services that allow businesses to connect their multiple sites within a city or across TeraGo's geographic footprint through a Private Virtual Local Area Network ("VLAN"). With speeds from 1.5 Mbps to 1 Gbps, TeraGo's VLAN services are ideal for companies with multiple offices and large interoffice data requirements. Campus VLAN services between two customer locations are available at speeds up to 1 Gbps. TeraGo's data services, which run across our MPLS core network, are symmetrical, allowing communication between parties in both directions simultaneously. TeraGo's use of Ethernet over MPLS ("EoMPLS") technology enhances its VLAN performance and enables VLAN customers to experience higher reliability and easier provisioning.

Voice Services
TeraGo is approved by the Canadian Radio-television and Telecommunications Commission ("CRTC") to offer voice services as a Type IV competitive local exchange carrier ("CLEC"). TeraGo provides businesses with a cost effective, flexible and high quality connection from their private branch exchange ("PBX") to the public switched telephone network ("PSTN"). TeraGo's service provides features and capabilities generally consistent with those provided by incumbent local exchange carriers ("ILECs"), while offering greater value for our customers.

Network

To deliver its services, the Company has built and operates a carrier-grade, IP network, using licensed and license-exempt spectrum and fibre-optic wireline infrastructure that supports commercially available equipment.

The Company owns and controls a national MPLS distribution network from Vancouver to Montreal that aggregates customer voice and data traffic and interconnects when necessary with carrier diverse leased fiber optic facilities. Major Internet peering and core locations are centralized in Vancouver, Toronto, Seattle and Los Angeles although Internet access is also available in all regional markets for further redundancy.

TeraGo offers a range of diverse Ethernet-based services over a secured wireless connection to customer locations up to 20 kilometres from a hub (provided line of sight or wireline networks exist) or through a fibre optic connection.

Quality of Service Capabilities

TeraGo's MPLS network, including key high traffic hub sites, is equipped with Quality of Service ("QoS") capabilities to improve performance and traffic management. All of TeraGo's major national markets are end-to-end QoS enabled providing the foundation to support voice traffic and other potential future applications.

Radio Spectrum

24-GHz and 38-GHz Wide-area Licences

The Company owns a national spectrum portfolio of 76 24-GHz and 38-GHz wide-area spectrum licences, covering Canadian regions with a population base of approximately 24.5 million, and including 1,160 MHz in Canada's 6 largest cities. This spectrum is used for: point-to-point and point-to-multipoint microwave radio deployments; connecting core hubs together to create a wireless backbone where appropriate (often in a ring configuration to avoid points of failure); and in the access network or "last mile" to deliver high capacity (speeds of 10 to 1,000 Mbps) Ethernet-based links for business, government and cellular backhaul.

For further details on licensed spectrums, please refer to the Company's 2013 AIF.

DATA CENTER AND MANAGED SERVICES

TeraGo provides data center services that protect and connect our customers' valuable information assets. Customers can provision computing equipment within shared partial cabinets or full, private cabinets, as well as customized caged space designed for their specific needs. TeraGo provides connectivity on redundant routes in and out of the facilities.

TeraGo also offers a variety of managed hosting solutions, which may require us to manage various aspects of a customer's hardware, software or operating systems in public or privately accessible environment. TeraGo offers disaster recovery services on a custom basis. This includes back-up office facilities that can be used in case of disaster. These facilities can be provisioned at the data center location and provide customers with the capability to restore office functionality with direct access to their information located in the data center.

Our network can provide these customers Internet and/or secure private virtual LAN connections between the data center facility and the customer's office location(s).

Data center services customers typically include national government agencies, financial services companies, cloud and data storage service providers, content and network service providers, and small and medium businesses which rely on TeraGo to store and manage their critical IT equipment and provide the ability to directly connect to the networks that enable our information-driven economy.

Data Center Facilities

Vaughan, Ontario

TeraGo operates a 16,000 square foot SSAE 16 SOC1 Type 2 data center facility in Vaughan, Ontario, serving the Greater Toronto Area. This facility provides data center solutions, including colocation and disaster recovery, to a roster of small and medium-sized businesses, enterprises, public sector and technology service providers.

Vancouver, British Columbia

TeraGo operates a 5,058 square foot expandable to 7,000 square foot data center facility in Vancouver, British Columbia. This will be utilized to service the greater Vancouver area. The facility has redundant fibre facilities between the data center and the 'telco hotel', 555 West Hastings, in downtown Vancouver. On October 1, 2014, the Company's second Vancouver data center facility became operational. This facility adds an additional 7,000 square foot data center facility in downtown Vancouver that is served by TeraGo's fibre optic line. This brings TeraGo's total amount of data center capacity in downtown Vancouver to 14,000 square feet.

CLOUD SERVICES

TeraGo provides cloud services that seek to meet the complex and evolving IT needs of our customers. TeraGo provides Infrastructure as a Service ("IaaS") cloud computing solutions and data archiving or cloud storage and other offerings either on a direct or indirect basis. These solutions allow the Company to compete in the cloud services, Platform as a Service ("PaaS") and Infrastructure as a Service ("IaaS") markets.

With its entry into data center services and cloud services, TeraGo is building an operating platform to service the IT solutions sector. Cross selling opportunities to the customer base, while leveraging the Company's carrier grade network is expected to augment and diversify the Company's revenue base.

RESULTS OF OPERATIONS

Comparison of the three and nine months ended September 30, 2014 and 2013
(in thousands of dollars, except with respect to gross profit margin, earnings per share and operating metrics)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Financial				
Revenue	$ 12,545	$ 13,168	$ 38,600	$ 38,517
Cost of Services[1]	$ 3,005	$ 2,962	$ 8,969	$ 8,545
Gross profit margin [1]	76.0%	77.5%	76.8%	77.8%
Adjusted EBITDA[1][2]	$ 4,081	$ 5,140	$ 12,215	$ 14,058
EBITDA[1][2]	$ 3,983	$ 5,001	$ 10,854	$ 13,463
Earnings (loss) from operations [1][3]	$ 124	$ 1,911	$ (1,228)	$ 4,501
Net earnings (loss)	$ (225)	$ 1,602	$ (2,853)	$ 5,043
Basic earnings (loss) per share	$ (0.02)	$ 0.14	$ (0.25)	$ 0.44
Diluted earnings (loss) per share	$ (0.02)	$ 0.13	$ (0.25)	$ 0.42
Operating				
Customers	4,109	4,086	4,109	4,086
ARPU[1]	$ 990	$ 1,047	$ 1,011	$ 1,037
Churn rate[1]	0.87%	1.03%	0.98%	1.19%
Number of employees	173	189	173	189

[1] See "DEFINITIONS - Key Peformance Indicators, IFRS, Additional GAAP and NON-GAAP Measures" for descriptions of Cost of Services, Gross profit margin %, EBITDA, Adjusted EBITDA, Earnings (loss) from Operations, Churn and ARPU

[2] See "EBITDA" for a reconciliation of net earnings (loss) to EBITDA and Adjusted EBITDA

[3] Earnings (loss) from operations is defined as earnings (loss) before foreign exchange, finance costs/ (income) and taxes.

Refer to "Definitions – IFRS, Additional GAAP and Non-GAAP Measures" for a description of the components of relevant line items below.

Revenue
Total revenue decreased 4.7% to $12.5 million for the three months ended September 30, 2014 compared to $13.2 million for the same period in 2013. The decrease in revenue for three months ended September 30, 2014 was driven by lower access and installation revenue partially offset by an increase of data center revenue. For the nine month period ended September 30, 2014, total revenue increased 0.2% to $38.6 million compared to $38.5 million for the same period in 2013. For the nine month period ended September 30, 2104 revenue increased vs. the same period in 2013 due to higher early termination fees from a new wireless entrant and increased data center revenue. This was offset by lower usage revenue and loss of revenue from a new wireless entrant.

Despite the overall decrease in revenue year over year, excluding fees related to loss of a new wireless entrant, service revenues from ongoing operations have steadily increased quarter over quarter during 2014 (Q1 = 12,016, Q2 = 12,019, Q3 = 12,097).

ARPU

ARPU or revenue per customer decreased 5.4% to $990 for the three months ended September 30, 2014 compared to $1,047 for the same period in 2013. For the nine months ended September 30, 2014 ARPU decreased 2.5% to $1,011 compared to $1,037 the same period in 2013. This decrease was primarily due to a decrease in revenue contribution from the Internet access business partially offset by an increase in the data center services as discussed in the revenue section above. The Company believes the current retention campaign launched for customers coming to the end of the contract term will help long-term revenue growth by maintaining a large base of customers to cross-sell complementary services such as data center and IT services.
Excluding fees related to loss of a new wireless entrant, ARPU from ongoing operations have held steady during 2014 (Q1 = $982, Q2 = $978, Q3 = $983)

Churn

The average monthly churn rate improved to 0.87% for the three months ended September 30, 2014 compared to 1.03% for the same period in 2013. For the nine months ended September 30 average monthly churn rate improved to 0.98% compared to 1.19% the same period in 2013. The improvement is primarily as a result of the enhanced retention focus now in place. Management continues to focus on retention initiatives and offerings, customer service, focused on the needs of SMB customers and renewed sales activity with competitive product offerings in addition to monitoring customer creditworthiness and churn levels.

Cost of Services

Cost of services remained relatively stable at $3.0 million for the three months ended September 30, 2014 and 2013. For the nine months period ended September 30, 2014, cost of services increased to $9.0 million compared to $8.5 million for the same period in 2013. The increase was primarily due to increased maintenance cost offset by savings from recurring network related expenditures.

Salaries and related costs-other and other operating items ("SG&A")

SG&A expenses increased to $6.1 million for the three months ended September 30, 2014 compared to $5.1 million for the same period in 2013. For the nine months ended September 30, 2014, SG&A expenses increased to $20.9 million compared to $16.4 million for the same period in 2013. The increase in both periods was due to higher stock based compensation provided to new management, increased rental expenses associated with DC acquisitions, higher restructuring costs related to the ongoing alignment of the Company's strategy and integration costs partially offset by savings in salary and benefits.

Adjusted EBITDA and EBITDA

Adjusted EBITDA was $4.1 million for the three months ended September 30, 2014 compared to $5.1 million for the same period in 2013, a decrease of 20.6%. Adjusted EBITDA for the nine months ended September 30, 2014 was $12.2 million compared to $14.1 million for the same period in 2013, a decrease of 13.1%. The decrease in both periods is driven by the revenue, cost of services and SG&A movements described above.

The table below reconciles net earnings (loss) to EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2014 and 2013.

(in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Net earnings (loss) for the period	$ (225)	$ 1,602	$ (2,853)	$ 5,043
Foreign exchange loss (gain)	42	(29)	43	29
Finance costs	311	351	1,609	774
Finance income	(4)	(13)	(27)	(31)
Income tax(recovery) expense	-	-	-	(1,314)
Earnings (loss) from operations	124	1,911	(1,228)	4,501
Add:				
Depreciation of network assets, property and equipment and amortization of intangible assets	3,315	3,195	9,934	9,039
Loss (gain) on disposal of network assets	174	(24)	549	81
Stock-based compensation expense (recovery)	370	(81)	1,599	(158)
EBITDA[1]	**$** 3,983	**$** 5,001	10,854	13,463
Restructuring, acquistion-related and integration costs	98	139	1,361	595
Adjusted EBITDA[1]	**$** 4,081	**$** 5,140	**$** 12,215	**$** 14,058

[1]**See Definitions – Key Performance Indicators, IFRS, Additional GAAP and Non-GAAP Measures**

Finance costs
Finance costs decreased to $0.3 million for the three months ended September 30, 2014 compared to $0.4 million for the same period in 2013 due to benefits on rates from refinancing the debt in Q2 2014. For the nine months ended September 30, 2014, finance costs increased to $1.6 million compared to $0.8 million for the same period in 2013. The increase in finance costs for nine month ended September 30, 2014 compared to 2013 is primarily due to fees and charges related to the set-up of the new Credit Facilities and termination of the old facility and an increase in interest expense as TeraGo's debt level increased due to acquisitions at the end of the second quarter in 2013.

Depreciation and amortization
Depreciation of network assets, property and equipment and amortization of intangibles increased by 3.8% to $3.3 million for the three months ended September 30, 2014 compared to $3.2 million for the same period in 2013. For the nine months ended September 30 2014 depreciation of network assets, property and equipment and amortization of intangibles increased by 9.9% to $9.9 million compared to $9.0 million for the same period in 2013. The increase in depreciation and amortization relates to increased investment in fibre optic network, wireless network assets and customer premise equipment as well as the amortization of new intangible assets acquired in the purchase of DCC on May 31, 2013.

Deferred income taxes
The Company reviewed and updated the assumptions and projections regarding future profitability as at September 30, 2014. Based on management's analysis, no change in deferred income tax assets resulting from temporary tax differences were recognized in the three or nine months ended September 30, 2014. For the nine months ended September 30, 2013, the Company recognized a tax benefit of $1.3 million associated with previously unrecognized tax losses.

Earnings (loss) from operations
Earnings from operations was $0.1 million for the three months ended September 30, 2014 compared to earnings from operations of $1.9 million for the same period in 2013. For the nine months ended September 30, 2014, loss from operations was $1.2 million compared to earnings from operations of $4.5 million for the same period in 2013. The changes are due to the items noted above.

Net earnings (loss)

Net loss was $0.2 million for the three months ended September 30, 2014, compared to net earnings of $1.6 million for the same period in 2013. For the nine months ended September 30 2014, net loss was $2.9 million compared to net earnings of $5.0 million for the same period in 2013. For the three and nine months ended September 30, 2014 and 2013 net loss was impacted by lower access revenue and higher stock based compensation expenses. For the nine months ended September 30, 2014, earnings were also negatively impacted by higher finance costs associated with the new credit facility, higher depreciation cost related to the new data center locations and restructuring costs incurred related to the ongoing alignment of the Company's strategy. In addition, the nine month period ended in September 30, 2013 included a tax benefit of $1.3 million associated with the previously unrecognized tax losses.

Summary of Quarterly Results

All financial results are in thousands, with the exception of earnings per share.

		Q3 - 14	Q2-14		Q1-14		Q4-13		Q3-13		Q2-13		Q1-13		Q4-12
Revenue	$	12,545	13,182	$	12,874	$	12,909	$	13,168	$	12,779	$	12,570	$	12,567
Gross Profit Margin %[1]		76.0%	77.9%		77.7%		75.9%		77.5%		78.0%		77.7%		77.9%
Adjusted EBITDA[1]	$	4,081	4,330	$	3,802	$	4,306	$	5,140	$	4,585	$	4,333	$	3,967
EBITDA[1]	$	3,983	3,578	$	3,291	$	3,043	$	5,001	$	4,129	$	4,333	$	3,967
Net earnings (loss)[1]	$	(225)	(1,535)	$	(1,093)	$	(734)	$	1,602	$	2,101	$	1,340	$	3,245
Basic earnings (loss) per share	$	(0.02)	(0.13)	$	(0.10)	$	(0.06)	$	0.14	$	0.18	$	0.12	$	0.29
Diluted earnings (loss) per share	$	(0.02)	(0.13)	$	(0.10)	$	(0.06)	$	0.13	$	0.18	$	0.11	$	0.27
Basic weighted average number of shares outstanding		11,620	11,566		11,490		11,446		11,430		11,419		11,397		11,345
Diluted weighted average number of shares outstanding		11,620	11,566		11,490		11,446		11,884		11,962		11,960		11,892

[1]**See Definitions – Key Performance Indicators, IFRS, Additional GAAP and Non-GAAP Measures**

Seasonality

The Company's net customer growth is typically impacted adversely by weather conditions. The majority of new customer locations require the installation of rooftop equipment. Typically, harsher weather in the first quarter of the year results in a reduction of productive installation days.

The Company's cash flow and earnings are typically impacted in the first quarter of the year due to several annual agreements requiring payments in the first quarter including annual spectrum payments, annual rate increases in long-term contracts and the restart on January 1st of payroll taxes and other levies related to employee compensation.

LIQUIDITY AND CAPITAL RESOURCES

TeraGo has historically financed its growth and operations through cash generated by operations, the issuance of equity securities and long-term debt.

The table below is a summary of cash inflows and outflows by activity.

(in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Statement of Cash Flows Summary				
Cash inflows and (outflows) by activity:				
Operating activities	$ 4,610	$ 4,351	$ 9,732	$ 11,234
Investing activities	(2,683)	(2,539)	(9,110)	(18,109)
Financing activities	(711)	(1,968)	473	6,308
Net cash inflows (outflows)	1,216	(156)	1,095	(567)
Cash and cash equivalents, beginning of period	2,016	1,058	2,137	1,469
Cash and cash equivalents, end of period	$ 3,232	$ 902	$ 3,232	$ 902

Cash from Operations

For the three months ended September 30, 2014, cash generated from operating activities was $4.6 million compared to $4.4 million for the same period in 2013. For the nine months ended September 30, 2014, cash generated from operating activities was $9.7 million compared to $11.2 million for the same period in 2013. The decrease in cash from operating activities for the nine months ended September 30, 2014 is principally from a net loss driven by an increase of SG&A expenses for restructuring and payment of the Company's outstanding PSUs that vested.

Cash used in Investing

Cash used in investing activities was $2.7 million and $9.1 million, respectively, for the three and nine months ended September 30, 2014 compared to $2.5 million and $18.1 million, respectively, for the same periods in 2013.

For the three and nine months ended September 30, 2014, additions to fibre optic and wireless network assets, property and equipment, excluding amounts related to changes in non-cash working capital, was $3.4 million and $9.6 million, respectively, compared to $3.0 million and $8 million, respectively, for the same periods in 2013. For the three and nine months ended September 30, 2014, the capital spending is primarily attributable to data center improvements, upgrading intercity core network, new equipment related to new customer installs and leasehold improvement.

For the nine months ended September 30, 2013, cash used in investing included the payment of $9.5 million, net of cash acquired, for the acquisition of DCC.

For the three months ended September 30, 2014, there were no transactions in short-term investments. For the nine months ended September 30, 2014 the Company had redeemed net $0.4 million of short-term investments compared to an investment of net $26 thousand for the same period in 2013.

Cash from Financing

Cash used in financing activities was $0.7 million and cash provided from financing activities was $0.5 million, respectively, for the three and nine months ended September 30, 2014 compared to cash used of $2.0 million and cash provided of $6.3 million, respectively, for the same periods in 2013.

For the three months ended September 30 2014, cash used in financing activities of $0.7 million was primarily due to the principal repayment of the new Credit Facility and related interest obligations. The Company also converted, in accordance with the Credit Facility, $19 million into a Banker's Acceptance for proceeds, after interest and stamping fee paid, of $18,843. For the three months ended September 30 2013, the $2.0 million cash used was mainly due to principal repayment of the term debt facility and related financing cost and interest obligations.

For the nine months ended September 30, 2014, cash from financing activities was primarily due to the draw of $21.0 million from the new Credit Facilities partially offset by the amount used to pay off the Company's previous debt facilities with RBC and related finance costs. For the nine months ended September 30 2013, cash generated from financing activities of $6.3 million was primarily due to the draw of $10.5 million from the previous RBC facility offset by $3.7 million of repayment of the term debt facility and capital lease obligations, finance costs and interest obligations.

Capital Resources
As at September 30, 2014, the Company had cash and cash equivalents and short-term investments of $3.3million and access to the $29.0 million undrawn portion of its $50.0 million Credit Facilities.

The Company anticipates incurring additional capital expenditures for the purchase and installation of network assets and customer premise equipment. As economic conditions warrant, the Company may expand its network coverage into new Canadian markets using wireless or fibre optics and making additional investments in data centers and other IT services through acquisitions or expansion.

In June 2014, TeraGo entered into an agreement with a syndicate led by the National Bank of Canada ("NBC") that provides a $50.0 million credit facility that is principally secured by a general security agreement over the Company's assets.

The total $50.0 million facility, which matures June 6, 2017, is made up of the following:

- $5.0 million revolving facility which bears interest at prime plus a margin percent; As of September 30, 2014, $4.0 million of this facility remains undrawn;
- $20,000 term facility which bears interest at prime plus a margin percent and is repayable in quarterly principal installments of $500 starting June 30, 2014. On September 30, 2014, the Company converted, in accordance with the agreement, the outstanding $19,000 balance into a Banker's Acceptance for proceeds, after interest and stamping fee paid, of $18,843. The Company also entered into an interest rate swap contract on September 30, 2014 to fix the interest rate on the term facility at 3.79%. This interest rate swap contract has not been designated as a hedge and will be marked-to-market each period; and
- $25.0 million available for funding acquisitions and will bear interest at prime plus a margin percent and is repayable in quarterly principal installments of 2.5% of the aggregate amount outstanding. As of September 30, 2014, this facility remains undrawn.

In connection with the agreement with NBC, the Company incurred financing fees of $0.4 million which have been deferred and amortized using the effective interest method over the term of the debt. The NBC facility is subject to certain financial and non-financial covenants which the Company is in compliance with at September 30, 2014. Under this facility, principal payments could also be accelerated depending on the generation of excess cash flow by the Company, as defined, which will be calculated and due not later than 120 days after the end of each fiscal year.

As at December 31, 2013, the Company had a credit facility agreement with the Royal Bank of Canada ("RBC") that consisted of an operating line of credit and certain term facilities, of which $18.5 million was drawn at December 31, 2013. The RBC facility was repaid in the second quarter of 2014 with the proceeds received from the NBC facility. The Company recorded total finance costs of $0.6 million related to the write-off of unamortized deferred finance costs and unwinding fees.

Management believes the Company's current cash, short-term investments, anticipated cash from operations, access to the undrawn portion of debt facilities and its access to additional financing in the form of debt or equity will be sufficient to meet its working capital and capital expenditure requirements for the foreseeable future.

Transactions with Related Parties
The Company provides services to Canlan Ice Sports Corporation whose Chairman of the Board of Directors, Grant Ballantyne, is one of the Directors of the Company. Revenue from this customer for the three and nine months ended September 30, 2014 was $18 thousand (2013 - $15 thousand) and $50 thousand (2013 - $43 thousand), respectively. Accounts receivable from this customer as at September 30, 2014 was $2 thousand (2013 - $6 thousand).

The terms governing these related party transactions are consistent with those negotiated on an arm's length basis with non-related parties.

Share Capital
TeraGo's authorized share capital consists of an unlimited number of Common Shares, an unlimited number of Class A Non-Voting Shares and two Class B Shares. A detailed description of the rights, privileges, restrictions and conditions attached to the authorized shares is included in the Company's 2013 Annual Information Form, a copy of which can be found on SEDAR at www.sedar.com.

As of September 30, 2014, there were 11,667,062 Common Shares including two Class B Shares outstanding. In addition, as of September 30, 2014, there were 940,450 Common Shares issuable upon exercise of TeraGo stock options.

Restricted Cash
The restricted cash is segregated for the period of a tax indemnity to a former officer in connection with the Company's initial public offering on June 18, 2007, and is invested in a guaranteed investment certificate. The related accrued interest is included in short-term investments. The indemnity is described in note 9 of the Company's 2013 Consolidated Financial Statements and the indemnity period expires in June, 2015. In the second quarter of 2014, the Company received a notice of a claim against the tax indemnity from the former officer relating to the sale of 189,496 Common Shares. The Company estimated the cost of the indemnity to be paid from the $0.8 million maximum allocated to the former officer and recorded stock-based compensation expense of $0.6 million related to this claim in the first quarter of 2014. The final settlement of the claim amount is still being evaluated. The offsetting liability is included in Accounts payable and accrued liabilities as at September30, 2014.

RISK FACTORS

For a discussion of the risks and uncertainties currently known to management which could have a material impact on the financial condition and results of operation of TeraGo, please refer to the "Risk Factors" section in our annual MD&A for the year ended December 31, 2013 on www.sedar.com. The discussion, by its nature, is not all-inclusive. It is not a guarantee that other factors will or will not affect TeraGo in the future.

RECENT ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

Certain new standards, interpretations, amendments and improvements to existing standards have been issued by the IASB and become applicable at a future date. The standards impacted that may be applicable to the Company are as follows:

(i) ***Financial Instruments***
In November 2009, the IASB issued IFRS 9, Financial Instruments ("IFRS 9") and in October 2010, the IASB published amendments to IFRS 9. IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9. The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be January 1, 2018.

(ii) ***Annual Improvements to IFRSs 2010-2013 Cycle – various standards***
In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014.

(iii) ***Revenue from Contracts with Customers***
In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which provides guidance on a new five step revenue recognition model that applies to contracts with customers. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

The Company is assessing the impact of these new standards on its consolidated financial statements and on its business.

CRITICAL ACCOUNTING ESTIMATES

The unaudited condensed interim consolidated financial statements are in compliance with International Accounting Standard 34 ("IAS 34"), Interim Financial Reporting. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. Estimates and assumptions are continuously evaluated and are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience. However, actual outcomes may differ from the amounts included in the consolidated financial statements.

The preparation of financial statements in accordance with IAS 34 also requires management to exercise judgment in applying the Company's accounting policies.

The Company's critical accounting estimates have been set out in note 2 of the Company's 2013 Consolidated Financial Statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

Our President and Chief Executive Officer and Chief Financial Officer designed or caused to be designed under their supervision, TeraGo's disclosure controls and procedures and internal control over financial reporting.

TeraGo's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to TeraGo is made known to management by others, particularly during the period in which the interim filings are being prepared and that information required to be disclosed by TeraGo in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. TeraGo's disclosure controls and procedures includes controls and procedures designed to ensure that information required to be disclosed by TeraGo in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to management, as appropriate to allow timely decisions regarding required disclosure.

TeraGo's internal control over financial reporting are designed to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP. TeraGo's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of TeraGo; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the Company's GAAP, and that receipts and expenditures of TeraGo are being made only in accordance with authorizations of management and directors of TeraGo; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of TeraGo's assets that could have a material effect on TeraGo's financial statements.

The control framework used to design TeraGo's internal control over financial reporting is based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may change.

There were no changes in the Company's internal controls over financial reporting during the three and nine months ended September 30, 2014 that have materially affected or are reasonably likely to materially affect internal controls over financial reporting. Management has concluded that there were no material weaknesses relating to the design of TeraGo's internal controls over financial reporting as of September 30, 2014.

SIGNIFICANT REGULATORY DEVELOPMENTS

Consultation on Spectrum Utilization Policies and Technical Requirements Related to Backhaul Spectrum in Various Bands

On November 30, 2012, Industry Canada released its consultation on spectrum utilization policies and technical requirements related to backhaul spectrum in various bands. The consultation seeks comments on the possibility of making additional spectrum available for backhaul, as well as views on updating standards and policies. Submissions were due by April 22, 2013 and Industry Canada provided interested parties with an opportunity to reply to comments from other parties until May 24, 2013. The Company has submitted its response in relation to this consultation.

EXECUTIVE MANAGEMENT CHANGES

Effective August 5, 2014, Greg Larnder was hired as Vice President of Sales.

Effective August 29, 2014, Bosco Chan, Vice President of Finance, was no longer with the Company.

EVENTS SUBSEQUENT TO SEPTEMBER 30, 2014

On May 31, 2013, the Company completed the purchase of 100% of the shares of Data Centers Canada Inc. ("DCC") for cash consideration of $9,187 thousand (DCC has since been amalgamated with TeraGo Networks Inc., a wholly-owned subsidiary of the Company). Of the total consideration paid, $500 thousand remained in escrow pending settlement of ongoing disputes with the vendors of DCC and their related parties. In October 2014, the Company settled all outstanding disputes and $420 thousand of the funds held in escrow were released to the vendors. The remaining escrow funds including interest totaling $90 thousand were released to the Company on October 6, 2014.

DEFINITIONS – KEY PERFORMANCE INDICATORS, IFRS, ADDITIONAL GAAP AND NON-GAAP MEASURES

Key Performance Indicators

ARPU
The term "ARPU" refers to the Company's average revenue per customer. The Company believes that ARPU is useful supplemental information as it provides an indication of our revenue from an individual customer on a per month basis. In addition, ARPU calculated by customer is a more appropriate performance indicator for a Company that offers multi lines of products. ARPU is not a recognized measure under IFRS and, accordingly, investors are cautioned that ARPU should not be construed as an alternative to revenue determined in accordance with IFRS as an indicator of our financial performance. The Company calculates ARPU by dividing our service revenue by the average number of customers in service during the period and we express ARPU as a rate per month. TeraGo's method of calculating ARPU may differ from other issuers and, accordingly, ARPU may not be comparable to similar measures presented by other issuers.

Churn
The term "churn" or "churn rate" is a measure, expressed as a percentage, of customer cancellations in a particular month. Churn represents the number of customer cancellations per month as a percentage of total number of customers during the month. The Company calculates churn by dividing the number of customer cancellations during a period by the total number of customers during the period. Churn and churn rate are not recognized measures under IFRS and, accordingly, investors are cautioned in using it. TeraGo's method of calculating churn and churn rate may differ from other issuers and, accordingly, churn may not be comparable to similar measures presented by other issuers.

IFRS Measures

Service revenue
Service revenue is generated from Internet access and data connectivity services that are sold on a subscription basis. This revenue is recurring and contracted with terms from one to three years and these contracts are typically renewable automatically unless notice of non-renewal is received 60 days prior to expiry.

Other revenue
Other revenue that customers are charged that is non-recurring such as installation fees and early termination fees. The installation fee charged to customers is a one-time set up fee and typically decreases with longer-term contracts.

Cost of Services
Cost of services consists of Direct cost of services and Salaries and related costs – cost of services and includes utilities expenses for the data centers.

Direct cost of services
Direct cost of services consists of expenses related to delivering service to customers and servicing the operations of our networks. These expenses include costs for the lease of intercity facilities to connect our cities, Internet transit

and peering costs paid to other carriers, network real estate lease expense, spectrum lease expenses, network maintenance expenses, and lease expenses for the data centers.

Gross profit margin %
Gross profit margin % consists of Gross profit margin divided by Revenue where Gross profit margin is Revenue less Cost of Services.

Other operating expenses
Other operating expenses includes sales commission expense, advertising and marketing expenses, travel expenses, administrative expenses including insurance and professional fees, communication expenses and rent expenses for office facilities.

Foreign exchange gain (loss)
Foreign exchange gain (loss) relates to the translation of monetary assets and liabilities into Canadian dollars using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in net income in the period.

Finance costs
Finance costs consist of interest charged on our short- and long-term debt, amortization of deferred financing costs including expenses associated with closing our long-term debt facility and accretion expense on the Company's decommissioning and restoration obligations. The deferred financing costs are amortized using the effective interest method over the term of the loan.

Finance income
Finance income consists of interest earned on our cash and cash equivalent and short-term investment balances.

Additional GAAP Measures

Earnings (loss) from operations
Earnings (loss) from operations exclude foreign exchange gain (loss), income taxes, finance costs and finance income. We include earnings (loss) from operations as an additional GAAP measure in our consolidated statement of earnings. We consider earnings (loss) from operations to be representative of the activities that would normally be regarded as operating for the Company. We believe this measure provides relevant information that can be used to assess the consolidated performance of the Company and therefore, provides meaningful information to investors.

Non-GAAP Measures

EBITDA and Adjusted EBITDA
The term "EBITDA" refers to earnings before deducting interest, taxes, depreciation and amortization. The Company believes that EBITDA and Adjusted EBITDA are useful additional information to management, the Board and investors as it provides an indication of the operational results generated by its business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and amortization. The Company believes that Adjusted EBITDA is useful additional information to management, the Board and investors as it excludes items that could affect the comparability of our operational results and could potentially alter the trends analysis in business performance. Excluding these items does not imply they are non-recurring. The Company calculates EBITDA as earnings before deducting interest, taxes, depreciation and amortization, foreign exchange gain or loss, finance costs, finance income, gain or loss on disposal of network assets, property and equipment and stock-based compensation. In addition, the Company excludes restructuring, acquisition-related and integration costs in its calculation of Adjusted EBITDA. Investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to operating earnings or net earnings determined in accordance with IFRS as an indicator of our financial performance or as a measure of our liquidity and cash flows. EBITDA and Adjusted EBITDA do not take into account the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

TeraGo's method of calculating EBITDA and Adjusted EBITDA may differ from other issuers and, accordingly, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "Results of Operations – EBITDA" for reconciliation of net earnings (loss) to EBITDA and Adjusted EBITDA.